

Minutes of the Region 9 Special Pension Committee Meeting
October 25, 2010

Filed subject to approval

Attendees: Leon Karvelis, Thomas Logie, David Boczar, Jeanne Wendschuh, James Murray, Peggy Sullivan, Michael Welz of The USI Consulting Group, Lloyd Wang (actuary with The USI Consulting Group)

1. Call to order at 5:35 pm in the Main Office Conference Room at Joel Barlow High School.
2. Motion to approve minutes of July 26, 2010 meeting was made by Mr. Logie, seconded by Mr. Murray, and unanimously approved (Mr. Murray abstained).
3. Public comment: None.
4. Mr. Wang discussed the Actuarial Valuation for Regional School District #9 Retirement Plan for the Plan Year Beginning July 1, 2010, noting that it was a reasonably stable year for the Plan and that the assumptions and methods used in the valuation were the same as were used in the prior year's valuation. He specifically commented on the comparisons on page 1 and the estimated liability loss of \$15,000 and actuarial experience gain of \$189,000 on page 2. Mr. Wang pointed out that the actual contribution of \$353,900 was less than the recommended contribution of \$370,015 for the Plan year that began on July 1, 2009. Mrs. Sullivan explained that there is a difference every year because the fiscal year's budget is approved in May or June before the July 1 actuarial valuation is completed so actual contributions always lag recommended contributions by one year.
5. Mr. Wang emphasized that the collective aggregate cost method used in the Plan valuation, which was previously adopted by the Committee for the Plan, yields recommended contributions that are approximately a constant percentage of covered payroll (14.9% for Plan year beginning July 1, 2009 and 13.81% for Plan year beginning July 1, 2010). He noted that this method smoothes the impact of asset gains and losses by amortizing them over five years but allows valuation assets to vary by no more than plus or minus 10% from market value (see page 5, Determination of Valuation Assets as of July 1, 2010).
6. Mr. Boczar asked how the 80.1% funded status of the Plan (page 3, market value of assets as a percentage of the present value of accrued benefits) compares with other plans. Mr. Wang replied that it is better than many others, but it is not great. He pointed out that there are only three ways to improve the Plan's funded status: to make larger contributions to the Plan, to reduce Plan benefits or to increase returns on Plan assets. He also noted that the goal of the Plan is to have sufficient assets to pay Plan benefits when participants retire, which is generally a reasonably long-term horizon.
7. Mr. Logie asked what interest rate assumptions other plans were using. Mr. Wang responded that this depends very much on local politics. Other plans he serves in Connecticut use from 7% to 7.5%; but plans he serves in Tennessee use from 8% to 8.5%. Mr. Karvelis noted that the Connecticut State Teachers' Retirement System used 4 to 4.5%, to which Mr. Wang commented that a Plan must match its interest rate assumptions with the invested assets. Mr. Wang then discussed a rationale supporting the Plan's use of a 7.25% interest rate assumption and provided written documentation of justification for a 7.7% assumption (copy attached). He also noted that 7.25% is consistent with other Connecticut municipalities and that the Committee revisits this assumption regularly.
8. Mrs. Wendschuh asked about the difference between the net pension obligation of \$590,888 on page 34 of the draft audited financial statements of Regional School District No. 9 and the \$576,988 reported in the GASB Statement No. 27 report provided by The USI

Consulting Group. Mrs. Sullivan responded that the amounts in the draft audited financial statements should be the same as those in the GASB Statement No. 27 report and that she would follow up with the auditors.

9. Mr. Wang provided additional context for the net pension obligation. He explained that when the Plan was established, plans expected to fund only 1 year of pension benefit payments, but with increasing life expectancies, plans now expect to fund 15 or more years of pension benefit payments. In addition, because of increasing life expectancies, we may expect liability losses each year. He noted that the mortality assumption table we are using is the most current static mortality table and he recommends that we continue to use it.
10. In response to Mrs. Wendschuh's question, Mr. Wang estimated that the net pension obligation is being amortized over approximately 7.2 years (the mathematical inverse of 13.814%), although the collective aggregate cost method used by the Plan does not separately amortize the net pension obligation.
11. Mr. Wang commented on a New York Times article (The Illusion of Pension Savings, September 17, 2010) that discussed Illinois' unfunded pension liability. In his opinion, the reporter had mixed too many issues and greatly exaggerated them in the article.
12. Mr. Logie asked if Mr. Wang was working with clients moving from defined benefit to defined contribution plans and how that transition affects the plans. Mr. Wang currently has 2 such clients. In his experience, existing participants stay in the defined benefit plan, with only new employees becoming participants in the defined contribution plan. He pointed out that the intent of a defined benefit plan is that a participant will not outlive the plan benefits ("if you work for me, I will take care of you in your retirement"). In contrast, in a defined contribution plan, the intent is to predict and control contribution costs, which coincidentally shifts investment risk to participants. In addition, he noted that defined contribution plan participants have a more limited pool of assets to invest and to balance a portfolio.
13. Mr. Welz provided hard copies of USI Advisors, Inc.'s September 2010 Investment Review (IR) which had previously been distributed electronically. He thoroughly reviewed IR Section 1: Financial Market Review and Economic Overview, noting particular trends and observations during the third quarter of 2010 and expectations for the remainder of 2010, particularly the continuing exceptional uncertainty in both the market and the economy. He also commented on the optimism in the September 2010 market for which no underlying cause was apparent.
14. Mr. Welz also reviewed IR Section 2: Status of Assets (the Plan's investment portfolio at September 30, 2010 and its performance for the quarter ended September 30, 2010). He noted that there were no great shifts in the portfolio but that equities have increased from 53% to nearly 57% of the portfolio and that the "overweighting" in international equities was done tactically instead of increasing fixed income investments. Contributions to the Plan during the third quarter were nearly \$384,000 and investment gains were nearly \$219,000. Referencing pages 32-36, Mr. Welz observed that the Plan has invested deliberately and strategically in a broadly diversified portfolio.
15. Mr. Welz continued by discussing IR Section 3: Investment Analysis, focusing specifically on the comparison of the Plan's Time-Weighted Portfolio Return with the two blended indices (IR page 39). He explained that these customized indices were based on his understanding of the Committee's input. Mr. Boczar expressed his discomfort with measuring the Plan's performance against a customized index that could be designed to match the Plan's portfolio rather than comparing it with a conventional index. After some discussion and a poll of each Committee member, ***it was agreed that the performance of the Plan's equity investments would be compared with the S&P 500, its fixed income***

investments would be compared with Barclays Aggregate and the entire Plan portfolio would be compared with a blended index comprising 60% S&P 500 and 40% Barclays Aggregate, which Mr. Welz agreed to use as the benchmarks in future analyses.

16. In reviewing the performance of individual investments, Mr. Welz reiterated the specific Plan Performance observations noted on IR page 4. Although four investments in the portfolio are on “watch,” he reported that USI didn’t have any real concerns about them at this time. Although DFA’s performance has improved, he supported keeping DFA on watch until *a representative of DFA reports at the Committee’s January 2011 meeting*. He also recommended keeping Columbia Mid Cap Value on “watch” (IR page 4) and noted that the Plan’s 6.33% investment in American Funds Growth Fund of America is currently dragging down portfolio performance. Mr. Welz also reported that several fund managers have commented that they are turning over their portfolios as frequently as every month to try to capture returns in this tremendously volatile market.
17. Mr. Boczar expressed reluctance to put more money into equities at this time and suggested that it may be appropriate to rebalance the portfolio after the next quarter.
18. Mrs. Sullivan updated the Committee on Pension Plan Administration matters, noting that the RFP for an advisor for a possible defined contribution plan is ready to go out, but it is on hold pending discussions with the Town of Redding, which is considering setting up a 457 plan through Union Savings Bank on which it may be possible and advantageous for ER9 to piggy-back. She has asked for legal advice to clarify limitations and restrictions that may be imposed by the current Plan Trust Agreement. The current union contract runs through June 30, 2011. Mr. Karvelis indicated that no determination or recommendation to the Board or Plan Participants has been made with regard to adoption of a defined contribution plan. Any such plan, if adopted, would most likely pertain to future hires. Nevertheless, study of the prospects for the design and implementation of a defined contribution plan will continue to afford the Committee current information with regard to a possible plan design and the financial and legal implications involved. To the extent that information becomes available through the Mrs. Sullivan’s research that should be shared with the Committee before its regular January 2011 meeting, Mr. Karvelis indicated that an off-cycle meeting of the Committee may be scheduled should the Committee be asked to make a recommendation to the Board and/or Plan participants.
19. Mr. Logie asked for clarification of the amounts of Plan contributions in the ER9 and central office budgets. Mrs. Sullivan responded that she expected to include in the 2011-12 budgets the actuary’s recommended contribution of \$268,490 plus approximately \$30,000 for Plan expenses in the ER9 budget and the actuary’s recommended contribution of \$95,285 in the central office budget.
20. Motion to adjourn was made by Mr. Boczar, seconded by Mrs. Wendschuh; and unanimously approved. (7:25 pm)

Respectfully submitted,
Jeanne Wendschuh, Secretary